

The Michigan Broadband Development Authority (MBDA)

An Introduction to the MBDA and its Financing Programs

July 18, 2002

William Rosenberg, President & Chairman of the Board

Robert Filka, Vice President & Chief Operating Officer

Chris LaGrand, Director of Legal Affairs

Mark Hilpert, Director of Finance

Michael Walker, Director of Project Development


Today's Agenda

- **Introductions**
- **Brief history of how and why the MBDA was created**
- **MBDA model and overview of plan for moving forward**
- **Overview of statute and key restrictions on use of funds**
- **Parameters for MBDA financing**
- **Invitation to Apply (ITA) details and process**
- **Q&A**

MBDA Board & Advisors

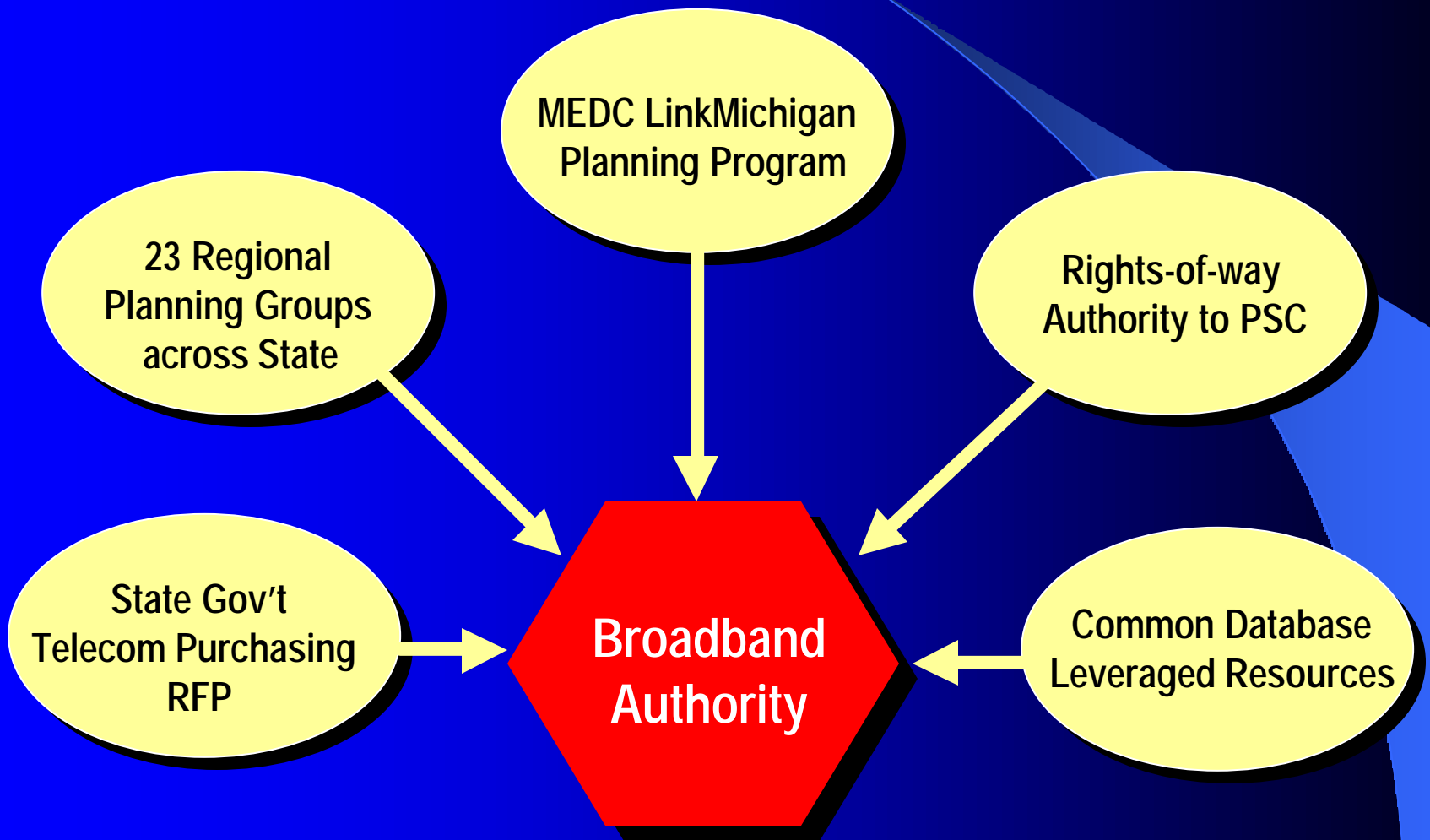
- **MBDA Board of Directors**
 - **William Rosenberg, President & Chairman of the Board**
 - **Robert Filka, Vice President & Chief Operating Officer**
 - **Doug Roberts, State Treasurer**
 - **James Logue, Executive Director MSHDA**
 - **Doug Rothwell, President & CEO MEDC**
 - **Suzanne Cole (R), Cole & Associates**
 - **Dr. Timothy Laing (R), University of Michigan Health System**
 - **Matt McLogan (R), Grand Valley State University**
 - **Cyril Moscow (D), Honigman Miller Schwartz & Cohn**
 - **Suzanne Dees (D), Superiorland Library Cooperative**
 - **Joel Ferguson (D), Ferguson Development LLC**
- **Bond Counsel**
 - **Miller Canfield**
- **Investment Banker**
 - **Goldman Sachs**

MBDA History



Sept. 2000	—	Economic competitiveness raised by MEDC Board
May 2001	—	LinkMichigan report
Sept. 2001- Present	—	Industry investment contraction/ consolidation
Dec. 2001	—	Governor's high-speed internet plan introduced
March 2002	—	Public Act NO. 49 Passed into Law
April 2002	—	Board of Directors appointed & seed funding secured
May 2002	—	Agency staffing/ temporary offices established
June 2002	—	Permanent offices/ technical advisor RFP issued
July 2002	—	Technical advisor selected/ ITA issued

Enhancing Broadband Infrastructure & Demand



MBDA at a Glance

- **Mission:** Issue tax exempt and taxable revenue bonds to finance projects that enhance broadband infrastructure and utilization in Michigan.
- **Financing tools:** loans and joint venture partnerships with private developers.
- **Capitalization:** \$50 million initial capitalization from sale of 6%, 20-year, zero-coupon bond to MSHDA.
- **Responsibility:** Remain financially self-sufficient by generating revenues from project lending and joint venture activity.

MBDA Initial Approach

- Hire major management/ technical consultants
 - Evaluation of market/industry
 - Strategic planning
 - Expert support for initial projects
- Initiate program for initial projects
 - Select six initial projects
 - Use initial projects to establish MBDA “process and procedures”
- Pursue both supply and demand-side projects
 - Supply: network backbone, last mile solutions, other infrastructure to enhance connectivity
 - Demand: Customer applications and systems that enhance broadband utilization

Follow MSHDA Model

- MSHDA issues notes and bonds and provides low interest mortgage loans to developers and home owners
 - MSHDA invested \$8 billion since 1970, attracting \$4 billion in private investment.
- Self-sufficient for 30 years
 - No General Fund appropriations
 - Private, not public ownership
- Maintains investment grade bond rating
 - “Top tier...in recognition of MSHDA’s history of superior portfolio management and underwriting, depth of financial resources, and prudent investment policies.” (Standard and Poor’s)

MBDA Legislation

MICHIGAN BROADBAND DEVELOPMENT AUTHORITY ACT (ACT NO. 49 OF THE PUBLIC ACTS OF 2002)

- **The Act creates the Michigan Broadband Development Authority as a public body corporate within the Department of Treasury.**
- **Key Findings**
 - **Certain areas of the state are not adequately served with broadband services.**
 - **For the benefit of the people of the state and the improvement of the economic and educational welfare of the state, it is essential that broadband infrastructure be expanded to provide broadband services throughout the state.**
 - **Private-sector should be encouraged to invest in the deployment of broadband services in the state.**

MBDA Authorized to:

- **Finance or refinance the expansion of broadband infrastructure.**
- **Borrow money and issue bonds or notes to fund its operations.**
- **Make loans or enter into joint venture arrangements to finance the development costs associated with broadband infrastructure and applications.**
- **Facilitate the expansion of broadband networks and increase the utilization of broadband services.**
- **Provide opportunities for small businesses and all regions of the state to participate in the authority's programs.**

MBDA Financing Programs

- What does MBDA financing offer?
 - **Source of capital**
 - **Potential for lower cost capital and favorable terms**
 - **Expertise/facilitation to help projects succeed**
- Debt backed by “moral obligation” of state
 - **AA+ to A+ rated bonds**
- Structure:
 - **Seed capital loans**
 - **Joint venture arrangements**
 - **Debt/equity ratio**

MBDA Estimated Loan Rates

Years	Maturity	Tax-Exempt Yield (%)	Taxable Yield (%)
1	2003	2.7--3.7	3.9--4.9
3	2005	3.5--4.5	5.3--6.3
5	2007	4.1--5.1	6.0--7.0
10	2012	5.1--6.1	6.9--7.9
15	2017	5.7--6.7	7.5--8.5
20	2022	6.1--7.1	7.7--8.7
25	2027	6.2--7.2	7.8--8.8
30	2032	6.2--7.2	7.7--8.7

Based on Goldman Sachs estimated bond rates as of July 12, 2002 and MBDA estimated fees to cover operating costs. Actual lending rates will be determined on a project-by-project basis.

Initial Projects ITA

- **Goal**

- **Initial set of projects for MBDA**
- **Refinement of formal processes and procedures for future projects**
- **Work through due diligence and underwriting for financial closings by end of 2002 or early 2003**

- **Opportunity**

- **Lower-cost debt on favorable terms (not grants)**
- **Work with authority from the beginning**
- **Up to six projects (\$500K--\$100 million)**
- **Supply and Demand-side projects**

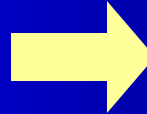
- **What to expect**

- **Potential for extra “hoops” to jump through**
- **Involvement of MBDA technical advisors**
- **Concerted effort by MBDA to make projects work**

Four-Phase Process

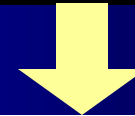
Phase 1: (ITA) Initial Screening

- How does project support MBDA mission
- Initial economic and technical review
- Financial structure



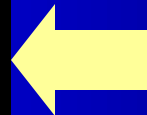
Phase 2: Feasibility Assessment

- Project sponsor
- Business plan
- Management team
- Projected economics



Phase 3: Due Diligences & Deal Structure

- Hard look at project economics and technology
- Full review of sponsors credit
- Structure financing arrangements



Phase 4: Commitment & Financing

- MBDA commitment to finance project
- Sale of Bonds
- Financial closing

Format/Content of Responses

- Enough information for MBDA to understand project and its sponsor
 - Less than 10 pages of text (25 pages including any maps, financial schedules, appendices)
- Project sponsor information & background
- Management team
- Project description
- Preliminary economics

Preliminary Timeline

